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Strategic Tax Credit Investments

BEACON HILL CAPITAL

Affordable Housing Equity Market Update

January 23, 2024

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Friends & Colleagues,

The intent of this newsletter is to provide our investor and syndicator clients a market update with respect to low-income housing tax credit (LIHTC) funds, and to a lesser extent, preservation and workforce housing funds. *We use italics for text that has been carried forward from previous issues.* This makes it easier for regular readers to quickly identify new material while providing important context for readers new to the newsletter, or the industry.

As always, this update is a collaborative effort between Strategic Tax Credit Investments and Beacon Hill Capital. Together, we represent nearly a dozen affordable housing syndicators of various sizes, including both for-profit and non-profit sponsors. Combined, our syndicator partners account for nearly 50% of the syndicated LIHTC market. Broad market representation is the foundation of our information-based approach to the brokerage and advisory services we provide, and it is the basis of the commentary that follows.

For LIHTC funds, our primary focus is on multi-investor fund pricing, yields and trends. We also consider pricing across the entire market, including proprietary funds, guaranteed funds, secondary sales, and direct investor activity.

In the context of this newsletter, preservation funds (or naturally occurring affordable housing (NOAH)) and workforce housing funds are non-tax advantaged multi-family real estate equity funds generally comprised of Class B and C properties or developments. Investments in these funds may qualify under Regulation H (12 CFR Part 208) as public welfare investments (PWIs) by targeting low- to moderate-income households, which can help attract equity from CRA investors. These types of funds fall along a spectrum depending upon how oriented they are toward PWI criteria. In terms of portfolio composition, some include a component of new construction workforce housing while others do not.

This issue follows our July 2023 newsletter. Previous newsletters are available on our websites: StrategicTaxCreditInvestments.com and BHCapital.com.

We hope you find this update informative and useful. As always, we welcome your questions, comments and perspective.

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Headlines

Interest Rates: With interest rates staying "higher for longer" throughout much of 2023, demand, particularly from non-CRA investors, remained somewhat more constrained than we had initially projected and as a result, LIHTC yields continued to gradually rise throughout the year. As inflation continues to cool and a "soft landing" looks increasingly likely for the economy in 2024, it appears that peak interest rates are likely behind us. The rapid decline of nearly 100 basis points in the 10-year U.S. Treasury yield over the past three months improves the attractiveness of LIHTC returns relative to alternative investments.

CRA: Final rules for CRA (Community Reinvestment Act) reform were issued in October, but the impact of these changes will not be felt for several years. As discussed more fully later in this issue, CRA reform is significant as 80-85% of LIHTC equity investment comes from banks whose investment activity is shaped and impacted by CRA regulations.

Industry Performance: Both Cohn Reznick and Novogradac have recently published LIHTC performance reports based on 2022 operating data. These studies provide vital analysis with respect to the underlying operational health of the LIHTC properties and insights as to the impact of economic headwinds on operations. Both reports demonstrate the resilience of the asset class. We will provide some summary highlights from the reports in this issue and tell you where you can find the full reports.

Washington: On the legislative front, industry lobbying groups continue to build ever-broader bipartisan support for the housing credit and currently have over 200 cosponsors of the Affordable Housing Credit Improvement Act (AHCIA) in Congress. Key provisions of the bill include core industry priorities that we have discussed previously including a significant increase in the 9% allocated credit and a reduction in the 50% Test for bond financed (4%) credit properties to 30% which would mainly benefit the 19 states that over subscribe their Private Activity Bonds.

On January 16th, House and Senate leaders Jason Smith and Ron Wyden announced a bipartisan Tax bill, **The Tax Relief for American Families and Workers Act of 2024**[1]. The act would result in a significant increase of LIHTC that would create nearly 200,000 additional affordable homes, according to Novogradac[2]. Per Sen. Maria Cantwell, "This is the biggest investment in housing in 35 years—and greatly needed."

First, the proposed framework would restore the 12.5% annual increase that expired in 2021. That increase would be retroactive to 2023 and carry through 2025. Practically speaking most states would likely carryforward the 2023 credits (if not used / applied to 2023 deals) resulting in closer to a 25% increase for 2024. Secondly, the bill would reduce the 50% bond financing threshold to 30% for Private Activity Bond (PAB) allocations placed in service after December 31, 2023 and through 2025. The bill would also restore 100% bonus depreciation if elected.

[1] https://gop-waysandmeans.house.gov/wp-content/uploads/2024/01/The-Tax-Relief-for-American-Families-and-Workers-Act-of-2024-Technical-Summary.pdf

[2] https://www.novoco.com/notes-from-novogradac/tax-legislation-announced-by-tax-writing-chairs-wyden-and-smith-would-temporarily-reduce-50-financed-by-test-to-30-for-2024-2025-restore-125-lihtc-boost-for-2023-2025

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It is important to note that there are many hurdles to overcome in enacting this legislation, but it does represent a positive step towards an estimated increase of 200,000 affordable homes through these provisions.

We will monitor closely whether there is a vehicle in which to enact this legislation in the coming days and weeks. One of the central components of the roughly $80 billion package is the extension of the Child Tax Credit, which the sponsors of this bill hope to have in place before Tax season begins on January 29.

Inflation Reduction Act (IRA) of '22 & 15% Corporate Minimum Tax

The industry is hoping for additional guidance from the Treasury Department sometime in 2024, which is needed to address certain technical questions and provide clarification on the new corporate minimum tax. Without this guidance, the economic benefits of tax advantaged investments such as LIHTC can be called into question. At least one large economic LIHTC investor has curtailed their investment activity pending this guidance, and a few others have referenced it as one reason their appetite for LIHTC investments has been constrained.

Signed into law in August 2022, the Inflation Reduction Act establishes a 15% minimum corporate tax rate for large companies on "book" income (those that average more than $1 billion in adjusted financial statement income, before taxes, over three taxable years). For most companies, the Act protects certain tax incentives and allows general business credits, including LIHTC, to be taken against the minimum tax. In addition, adjustments such as accelerated depreciation and amortization are allowed.

*According to the Baker Institute for Public Policy, "the 15% minimum tax in the IRA does not align the U.S. corporate income tax mechanism with the Organization for Economic Cooperation and Development's (OECD) Global Minimum Tax, although both use a 15% rate and apply to book income. For instance, the income threshold for in-scope companies under the OECD agreement is much lower threshold than the U.S. minimum tax. In addition, the OECD agreement aims to stop corporate profit shifting to low-tax jurisdictions through global harmonization, with U.S. companies likely paying more taxes in foreign jurisdictions as an end-result. However, the objective of U.S. Inflation Reduction Act is to increase domestic corporate tax revenue. Finally, details — such as loss carryforward, depreciation deduction, and treatment of certain credits — are inconsistent across the two systems."*3

[3] https://www.bakerinstitute.org/research/inflation-reduction-act-2022-corporate-minimum-tax-faces-major-issues

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Community Reinvestment Act Reform & Modernization

In October of 2023, the Federal Reserve Board of Governors (FRB), Office of the Comptroller of the Currency (OCC), and Federal Deposit Insurance Corporation (FDIC) jointly released the final CRA rule changes to modernize the Community Reinvestment Act (CRA).

The significance of a change to CRA rules is that banks, which comprise approximately 80-85% of LIHTC equity market, have been satisfying key components of CRA requirements by investing in and making loans to LIHTC properties since the inception of the program. As the last significant interagency revision to CRA occurred in 1995, banks and the broader affordable housing industry have been very active throughout the rule making process to minimize the impact to the financing and production of affordable housing in the U.S. Furthermore, the regulators acknowledge that further revisions may be necessary if the new rules create unintended and undesirable impacts to important programs such as the production of affordable rental housing.

The Community Reinvestment Act, or CRA, became law in 1977 and encourages banks to help meet the credit needs of the entire community in which they do business, with a particular focus on low- and moderate-income communities, consistent with safe and sound operations.

First, while the rule becomes effective April 1, 2024, examinations under the new rules generally do not begin until 2028. Discussions with several bank investors indicate that they expect 2024 to be largely business as usual as they continue to operate under existing plans and digest the rule changes. Ultimately, it will be several years until we can see what effect the rule changes have on banks behavior and the affordable housing market in general. Below we touch on some key components of the new rule as it relates to the LIHTC equity market.

Stated goals of the proposed rule changes include:

- *Expand access to credit, investment, and basic banking services in low- and moderate-income communities*
- *Adapt to changes in the banking industry including internet and mobile banking*
- *Provide greater clarity, consistency, and transparency*
- *Tailor CRA evaluations and data collection to bank size and type*
- *Maintain a unified approach among the three banking regulatory agencies*

In concept, these goals sound like positive changes, but there were a number of aspects that gave the industry concern and resulted in a very active lobbying effort. Chief among them was the elimination of the Investment Test, which many banks satisfy in large part by making equity investments in

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affordable housing. Under existing rules, the Investment Test comprises 25% of a bank's CRA rating. Under the new rule, the Investment Test is combined with the Lending Test into a single Community Development Finance test comprising 40% of the CRA rating (which was raised from 30% based on industry feedback). The industry's primary concern was that elimination of the investment test will reduce banks' incentive to make equity investments and the result could significantly undermine the production of affordable housing in the U.S.

Most banks insist that they make equity investments in housing credits for several reasons beyond CRA requirements including support for all aspects of affordable housing finance, higher rates of return than comparable debt opportunities, tax appetite, and client banking relationships. However, there is concern that smaller banks (i.e. state and regional) may prefer loans due to the increased cost and complexity of underwriting equity investments. There is also concern this change will discourage banks from staffing up to make equity investments and may simply make loans instead.

The final rule attempts to address industry feedback and provides several provisions designed to support and encourage the financing and production of affordable housing. Here we briefly summarize a number of these components.

Large Banks (> $2B), which comprise the vast majority of the LIHTC equity market, will be evaluated against a nationwide Community Development Test benchmark relative to other Large Banks. CRA credit will be given for all LIHTC activity even outside of a bank's assessment areas. In other words, banks will receive CRA credit for LIHTC activity anywhere in the U.S., but they will still be evaluated in their specific facilities-based assessment area and retail lending assessment area, if applicable. Under the old rule, banks were only given credit for investment activity in their assessment area. In addition, a bank that invests in a LIHTC fund will retain the option of using CRA side-letters if they choose to allocate investment dollars to certain geographies.

CRA assessments will also have an Impact and Responsiveness factor linked to LIHTC. Full CRA credit, rather than proportional, will be given for mixed income properties with LIHTC regardless of the number of units with LIHTC subsidy. While the Investment Test is eliminated, a metric tracking LIHTC investment activity will be applied to Large banks with deposits in excess of $10 billion.

Naturally occurring affordable housing (NOAH) and workforce housing, key components of Preservation and Workforce Housing Funds, qualify for CRA credit as long as a majority of units are underwritten not to exceed 30% of 80% of Area Median Income (AMI). This provision was added to the final rule after industry lobbying efforts and will provide important support for these types of funds.

There are also some changes that would potentially have other effects on the affordable housing market. First, banking assessment areas will be expanded to include areas of virtual banking activity where they do not have physical branch locations. As noted above, CRA eligible activities for a bank's examination purposes would not be geographically restricted to their assessment areas. Both elements

should reduce competition among banks in so-called "CRA hot" areas and distribute affordable housing finance activities more evenly across the U.S. In turn, this may lead to a narrower range of housing credit equity prices. On the other hand, the feasibility of transactions and the amount of affordable housing produced in formerly "CRA hot" markets may suffer if equity prices decline in those markets.

The final rule is part of a fifteen-hundred-page document. We have only touched on a few key elements of the rule changes here. As the rule continues to be analyzed and implemented, we will continue to provide updates as to any impact to LIHTC market dynamics.

Industry Performance Studies

Both Cohn Reznick and Novogradac recently released performance studies based on 2022 data for LIHTC properties and both highlight the resiliency of the asset class despite lingering effects of the pandemic and the historic hike in interest rates that followed.

Novogradac's report on income, expenses and net operating income trends for 2022 was based on 1700 properties and approximately 185,000 rental units. Given supply chain disruptions and high inflation rates over the past several years, it is well documented that operating expenses have spiked in recent years. In fact, Novogradac's study found that operating expenses increased 10.4% in 2022. While this could give rise to concerns about LIHTC properties' ability to cover debt service, Novogradac also found that income increased by 9.2%. Since income comprises a larger portion of net operating income (NOI) than expenses, NOI still grew by 7.4%. It is worth highlighting, that Area Median Income (AMI) which governs maximum LIHTC rents increased an average of 11.9% nationally in 2022, however, most LITHC properties are capped by HUD on the allowable rent increase by 10% (recently this cap was lifted from 5%) . Also, the strong NOI growth was achieved despite rent collection loss (economic vacancy) being up dramatically - about 40% in the past two years as a result of the expiration of pandemic-era eviction moratoriums and the financial strain that nearly three years of historically high inflation rates have had on low- and moderate-income families.

In late 2023, Cohn Reznick also released its biennial report addressing the investment and operating performance of LIHTC properties. Their study collected data from more than 30,600 properties.

Key takeaways from the Cohn Reznick report:

> **A cumulative foreclosure rate of 0.50% with no new foreclosures reported in 2021 or 2022** and that operating performance remains robust despite a spike in operating expenses and a rise in economic vacancy.
>
> National median physical occupancy rates are high, ranging from 96.4% to 97.9%, but economic vacancy has increased (rent collection loss) with a historically high 17% of the data set reporting below 90% economic occupancy.
>
> Watch list percentages rose for all properties across all stages of development with properties in lease-up reporting the highest watch list percentage at 28.6%, followed by pre-stabilized

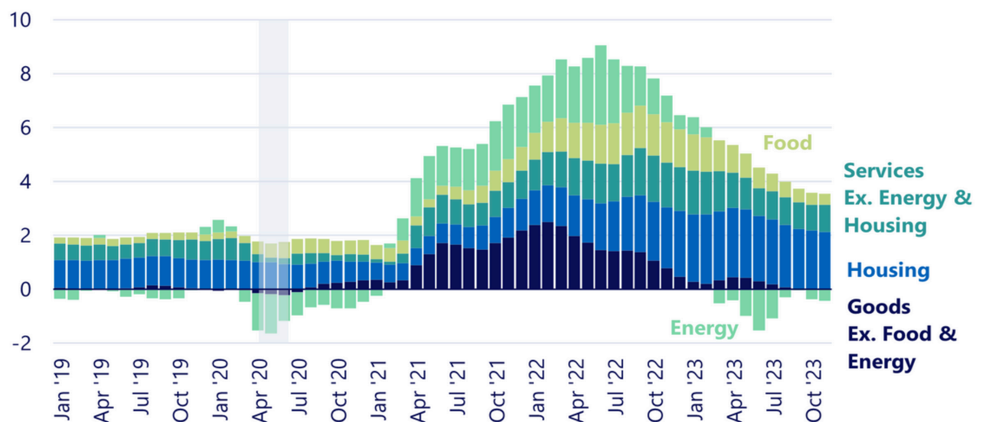
properties and properties under construction confirming that the pandemics' impact on supply chains, staffing and employment impacted project completion.

Cohn Reznick's report found that rising operating expenses were a primary reason behind a higher percentage of properties being on the watchlist. Operating expenses grew by 12.1% for watchlist properties vs. the 8.2% average expense growth rate for all stabilized properties.

While operating performance deteriorated as a result of the pandemic and economic conditions in 2022, the subset of properties experiencing severe underperformance remained very low with only 2.5% of the data set rated either D or F according to AHIC guidelines.

Economic Outlook

Many of the global challenges we highlighted in 2023 have finally started to recede and with that, hopefully volatility in the capital markets. In early January, Richmond Fed Governor, Thomas Barkin, remarked on "real progress" with respect to inflation rates that made a soft economic landing "increasingly conceivable." Recently, the fed futures' market put the probability at greater than 50% for a Fed rate cut in March and a total of roughly 150 basis points of rate cuts priced in for 2024. It is interesting to note, however, that bank executives at the 2024 World Economic Forum in Davos last week expressed concern that the market may be overestimating the pace of rate cuts and that interest rates may not come down so quickly.



In 2023, inflation slowed from a 6% annualized rate at the start of the year to just over 3% by year-end, but the Fed is not predicting a return to its 2% target rate until 2026. Fed Governor Michelle Bowman, one of the central bank's most hawkish officials, said in November that she expects the Fed would need to "increase rates further to keep policy sufficiently restrictive to bring down inflation to our target in a timely way" and citing the risk that inflation's descent could stall, but this is not the consensus view.[4]

[4] https://www.cnbc.com/2023/01/10/feds-bowman-says-theres-a-lot-more-work-to-do-to-bring-down-inflation.html

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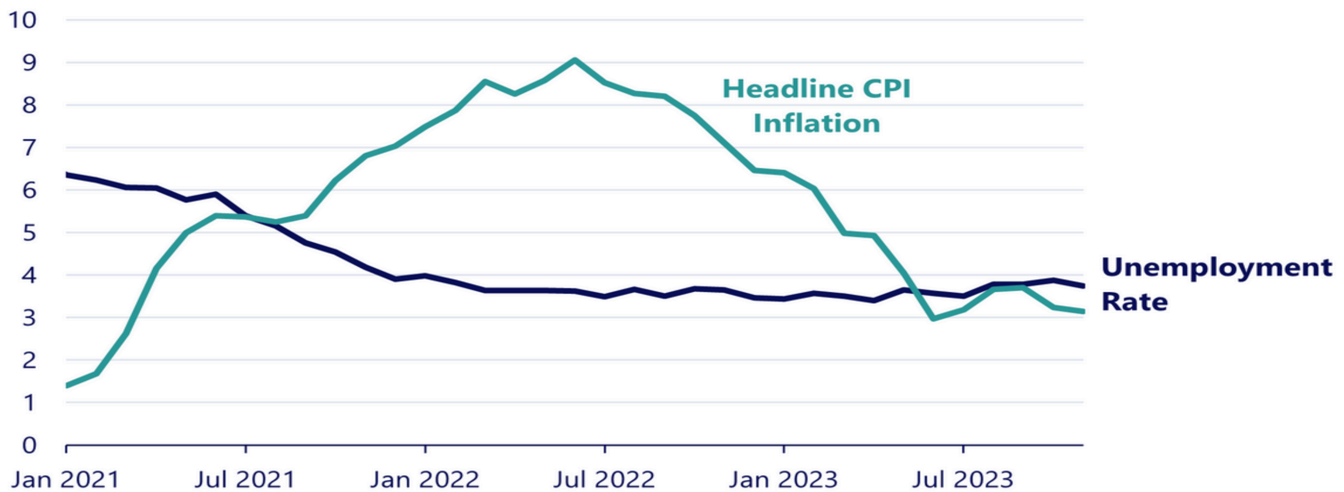
U.S. Gross domestic product (GDP) grew at a surprisingly strong annualized rate of 5.2% in the third quarter. However, the rate of growth is expected to be much slower in Q4 and into 2024. The Atlanta Fed projected fourth-quarter GDP to come in at 2.1% on an annualized basis. Over 2023, the US economy added about 4.5 million jobs, the second-most on record. However, the number of jobs added monthly trended solidly downward throughout the year indicating that the Fed's policies have been effective in cooling the labor market.

US private employers hired more workers than expected in December, indicating continued strength in the labor market with the unemployment rate remaining under 4% for nearly two years. Job openings have dropped to a nearly three-year low and the pace of layoffs has been leveling off.



In summary, peak interest rates appear to be behind us, inflation looks increasingly under control, and the probability of a "soft landing" for the economy looks gradually more likely. Even as inflation rates slow, however, prices and rates are still well above where they were before the pandemic. Households, particularly those of low and moderate income, are still grappling with the compound effects of multiple years of high inflation. Lastly, the ongoing war in Ukraine and a second war in the Middle East continue to bring uncertainty to oil markets, and portions of the global supply chain.

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LIHTC Pricing Outlook

Over the course of 2023, LIHTC non-CRA yields for national funds across our sponsors generally increased, but the amount of increase varied based on fund investor mix and to some extent the number and size of their fund offerings. Funds that targeted mostly bank investors were generally able to hold yields flat or only increase them slightly whereas funds looking for more non-CRA equity had to increase yields more significantly (up to 85 bps). The regional banking crisis in the first half, followed by the continued rise in interest rates and economic headwinds in the second half continued to dampen demand from non-CRA investors, notably insurance companies.

Looking ahead to 2024, we are hopeful that the 15% corporate minimum tax will be resolved favorably with respect to accounting treatment of housing credits (additional guidance expected sometime during 2024), and any potential impact on demand from CRA reform is both delayed and likely to take place over several years rather than immediately.

Given that peak interest rates are likely behind us, and that benchmark yields on 10-year US treasuries and BBB corporate bonds have declined rapidly (nearly 100 bps over the past three months), it is tempting to forecast strengthening investor demand in 2024. While we do anticipate somewhat stronger demand, it is important to keep in mind that even if the Fed reduces rates by the roughly 150 basis points that the market expects, interest rates will still be high relative to where they were just 24 months ago. Elevated interest rates will continue to put a strain on many companies in the form of reduced cash flow, greater capital reserve requirements, and potentially reduced capacity for tax advantaged investments like LIHTC.

Considering all these factors, we are forecasting some increased demand in 2024, particularly from non-CRA investors. If the supply of LIHTC increases only incrementally in 2024 (i.e. no significant supply increase via legislation) we would expect a leveling off in LIHTC yields and, perhaps, even a slight decrease. However, if supply is significantly increased through legislation, then we would expect to see a correspondingly significant increase in LIHTC yields.

As always, we emphasize that there is a range in LIHTC yields across the market. Reasons for this include, but are not limited to, differences in portfolio composition, sponsor strength, load, the use of bridge financing as well as inefficiencies in the market.

In general, investors with CRA needs are less price sensitive than non-CRA buyers. CRA pricing can apply to investors who require a CRA letter on individual transactions or groups of transactions depending upon their geographic location. As a result, there is often bifurcated pricing in the market. Furthermore, there has been an increasing trend to pair equity with debt on transactions. Developers who are considering equity offers that are contingent with a specified bank securing the debt can often see higher equity pricing as a result.

While the influence of the non-CRA component of the equity market on lower-tier pricing (property level) is limited because it comprises only about 15-20% of the total market, this segment can still move the market. When non-CRA investors pull back, fund sponsors who rely on non-CRA investor equity will

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typically cut fees and raise yields as necessary to obtain the investor equity needed to clear their funds. If this pricing pressure persists at the fund level, ultimately lower tier pricing will follow suit.

Our pricing summary focuses on three specific segments: multi-investor national funds; CRA versus non-CRA; and regional funds. Our pricing outlook for the next six months is based on both fund-level and property-level information from syndicators and investors. It is important to look at both because property-level and fund-level pricing do not always move in concert in the short-term. Historically, there has been a pricing lag of at least six months in the LIHTC market.

Tax credit pricing can be somewhat inelastic due to a number of factors including the long project lifecycle from conception to construction, and the protracted negotiations between syndicators and developers over terms and pricing. There is also a lag in feedback from investor demand to resulting adjustments in property-level negotiations with developers.

National Funds

Currently, national funds seeking to attract non-CRA equity are generally priced in the $0.89-$0.96 per credit range on a fully loaded basis with after-tax QIRRs in the 6.00-7.60% range with some exceptions both above and below. The range reflects a reduction in price per credit of one to two cents since our newsletter in July, while the yield range is roughly the same with only slightly higher yields for the largest non-CRA investors. Please note that we have included both a Q1 national fund summary and our previous Q4 summary for reference.

If the supply of LIHTC is not significantly increased through legislation, then we expect that property-level (lower-tier) pricing will be on a flat to downward trend for the first half of 2024 with the usual exception for certain high demand CRA markets. However, if the supply of LIHTC is increased as proposed through legislation, then we would expect to see significant pricing reductions and a corresponding increase in yields. For more detailed metrics on current offerings, please see the attached LIHTC Fund Summary Exhibit.

In the most competitive CRA areas (e.g. NYC, Boston, Utah, etc.) investors can expect yields to dip into the 3% range for certain transactions. Conversely, some syndicators are able to secure product at more favorable pricing in less competitive markets and can then offer yields to CRA investors above 6.00%. Funds may be able to achieve this depending upon the specific composition of the fund, investment size and the syndicator's investor base.

Pricing can fall outside of these ranges based on geographic location of properties, investment size and other special circumstances (e.g. a sponsor replacing a lost equity commitment). At the higher end of the yield spectrum, there are several economic investors that will make larger investments to secure premium yields within national multi-investor funds. We have seen those break point levels increase over the last couple years with the highest returns now typically linked to investment sizes in the $40-50 million range. There are also larger CRA-motivated banks that are making blended investments that mix both CRA selections at lower yields with non-CRA selections to achieve higher overall returns.

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Outside mainstream LIHTC multi-investor funds, some investors who require higher returns are willing to invest in funds and projects with higher risk profiles including mixed-income developments, assisted living properties, LIHTC transactions with higher leverage, and locations such as Puerto Rico and other U.S. territories.

One variable affecting the IRR and price per credit ranges above is the amount of bridge financing being utilized by the fund sponsor. In general, fund bridging becomes more prevalent as interest rates decline and arbitrage opportunities increase. Most national funds assume at least some modest level of bridge financing to manage capital calls. When the interest rate environment permits, a number of syndicators use additional bridging to more effectively compete for product and enhance yields. For investors that are focused on the lowest price per credit and little or no bridging, some funds will offer an unbridged investment class option ("cash needs"), which results in a lower IRR.

Conversely, some syndicators offer bridged returns, when positive arbitrage exists, for investors focused on a higher IRR, which generally increases the gross price per credit. These options appeal to different investors based on their internal investment models. It should be noted that the use of bridging by syndicators varies depending on the spread between the cost of bridging and fund yields.

Regional Funds

As we wrote in July, the market for California regional funds was impacted substantially in 2023 following the collapse of Silicon Valley and First Republic, two of the largest LIHTC bank investors in these regional funds. Given the CA regional fund market had historically been characterized by a large number of fund offerings relative to a limited number of investors, the collapse of these institutions caused syndicators to rethink their plans for CA regional funds in 2023. As a result, certain syndicators shifted significant portions of their CA pipeline to their national fund offerings in lieu of CA regional funds. For 2024, we expect to see a return of some CA regional funds as well more western regional funds (CA plus a mix of western states). We expect these funds to be comprised of nearly all CRA motivated investors with correlating pricing based on the underlying geographic markets.

Supply

The total supply of LIHTC credits, including both 4% and 9% credits, will increase about 5% in 2024. The 9% federal Low Income Housing Tax Credit (LIHTC) per capita multiplier will increase 15 cents in 2024 to $2.90, which ties the record set last year for the largest year-over-year increase without a legislative change. The small-state minimum for 9% LIHTC also increased to a record $3,360,000 (from $3,185,000) and the private activity bond (PAB) per capita multiplier increases to a record $125 from $120. The PAB small-state minimum also increased by nearly $20M to $378,230,000.

For 2024, the LIHTC equity market is estimated to be north of $25 billion in total size. However, we should note that the size of the market does not accurately account for the reduced feasibility of many transactions, or the fact that several states continue to forward allocate credits to make transactions work as previously mentioned.

If the proposed LIHTC program changes are enacted through legislation, then the supply of credits in 2024 could increase substantially. While pricing would adjust downward (and yields would rise) for the market to clear, we do anticipate that higher yields would stimulate additional demand resulting in a larger total market size.

As we mentioned back in July, in the broader context of tax credits, the Inflation Reduction Act increased and expanded many existing energy credits and created new climate credits. The timing and allocation of this additional credit supply is tied to ongoing guidance from the IRS[5], but the market for renewable energy credits could grow from being slightly smaller than LIHTC to double the size of the LIHTC market. This potentially large increase in the supply of credits could impact pricing in the LIHTC market going forward.

The IRA also allows for refundability, or direct payment for certain clean energy credits and the IRS & Treasury department released guidance allowing for more flexibility on the transferability of green energy tax credits. Essentially 'certificating' the energy credit by allowing project developers to sell the credits to an unrelated party.

Lastly, at the end of Q1, the Financial Accounting Standards Board (FASB) issued an update allowing for the expanded use of the Proportional Amortization Method (PAM) of accounting for certain tax credit equity investments. Previously, the PAM was only available for LIHTC investments as an alternative to either the cost or equity method.[6]

These changes may increase the attractiveness of renewable credits for some investors, although the transferability component may be less appealing to ESG-focused investors. These changes are significant in the world of tax equity finance and may substantially increase the size and amount of tax equity

[5] https://www.novoco.com/notes-from-novogradac/novogradacs-renewable-energy-working-group-expects-busy-2024-assessing-forthcoming-ira-regulations-and-guidance-after-a-successful-2023

[6] https://www.bdo.com/insights/tax/emerging-issues-task-force-issue-no-21-a,-accounting-for-investments-in-tax-credit-structures-using

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transactions in the years to come, but it remains to be seen how these changes will ultimately impact the LIHTC market.[7]

Demand

As discussed under LIHTC Pricing Outlook, we view improving economic conditions and rates on alternative investments as favorable for non-CRA demand to rebound in 2024, while CRA demand holds steady or improves, and demand from the GSEs (Fannie Mae and Freddie Mac) increases by $300M as authorized by the FHFA. The new cap for the GSEs includes a provision that any annual investments beyond $500M must be for transactions identified as having difficulty attracting investors and the investments can only be in LIHTC developments that have 30-year affordability restrictions.

The collapse of Signature Bank, Silicon Valley Bank, First Republic Bank and Credit Suisse combined to represent the largest banking failures since the "Great Recession" and impacted the LIHTC market as all, but Credit Suisse were programmatic and significant LIHTC investors. Initially these failures caused immediate concern from investors about their counter-party risk, and syndicator exposure to future capital calls from these institutions. At the same time, investors grappled with contagion fears and uncertainty about the possibility of other institutions failing. Public reassurances from the Federal Reserve about the commitments and ongoing operations of the affected institutions enabled all impacted LIHTC funds to proceed with fund closings, albeit at reduced fund sizes. During this time, some non-CRA investors elected to proceed cautiously or stay on the sidelines for the first half while the dust settled.

We continue to monitor the growing interest in ESG related investments. While there remains some level of uncertainty around what "qualifies" as an ESG investment, both LIHTC and Preservation funds seem to incorporate adequate characteristics. There has been a marked increase in investors asking for ESG related statistics on their investments, and a material, though not yet impactful, increase in the volume being invested to satisfy internal ESG objectives. More recently there have been a number of LIHTC fund offerings comprised of transactions that are BIPOC (black, indigenous, and other people of color) owned and developed. These funds vary in specifics but are generally targeting developers who otherwise would not meet traditional investor requirements for track record, net worth & liquidity. Most of the funds offer some type of yield enhancement or guaranty provision to further attract impact minded investors. Interestingly, there are reports that demand for these types of transactions from competing syndicators can drive equity pricing premiums. We would expect this segment of the LIHTC market to continue to evolve as corporate ESG initiatives develop further.

[7] https://www.akingump.com/en/insights/alerts/clean-energy-tax-credit-transferability-guidance-issued#:~:text=Eligible%20credits%20are%20transferable%20under,of%20the%20filing%20of%20the

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Interest Rate Environment:
10 Yr Treasury & Corporate Bonds

The historic rise in interest rates over the last two years is well documented, The Federal Funds Rate currently stands at 5.25% to 5.50%. In contrast, it was 0.0 – 0.25% just two years ago. The Fed Funds futures market is currently expecting that a 25 basis point rate cut is more likely than not for March and that a total of nearly 150 bps in rate cuts are projected over the course of 2024. With peak rates likely behind us, inflation seemingly under control, and the economy demonstrating continued strength, the U.S. 10-Year Treasury bond rate has fallen nearly 100 bps in the past three months.

Due to the industry's size and specific characteristics, LIHTC yields do not correlate directly with Treasury yields. However, the U.S. 10-Year Treasury bond rate (10-year) remains a common and important reference point. Over the past 15 years, the spread between LIHTC yields (non-CRA yields in national funds) and the 10-year yields (on an after-tax basis) has ranged widely from a low of approximately 133 basis points (bps) in 2006 to a high of around 925 bps in 2010. The historic average has been approximately 442 bps. Using a non-CRA 7.00% after-tax QIRR from the most recent round of closed multi-investor funds, today that spread is moving closer to the historic long-term average at approximately 382 bps; an increase of about 30 basis points since our July newsletter.

Over the years, many investors have indicated that BBB rated corporate bonds may be the best credit proxy for LIHTC investments. Historically, LIHTC yields have maintained a spread of approximately 300 bps over BBB's after-tax equivalent. Currently, BBB's are roughly 4.32% with the resulting after-tax equivalent spread to LIHTC at 210 bps.

Please see our attached exhibits for graphical representations of our yield data.

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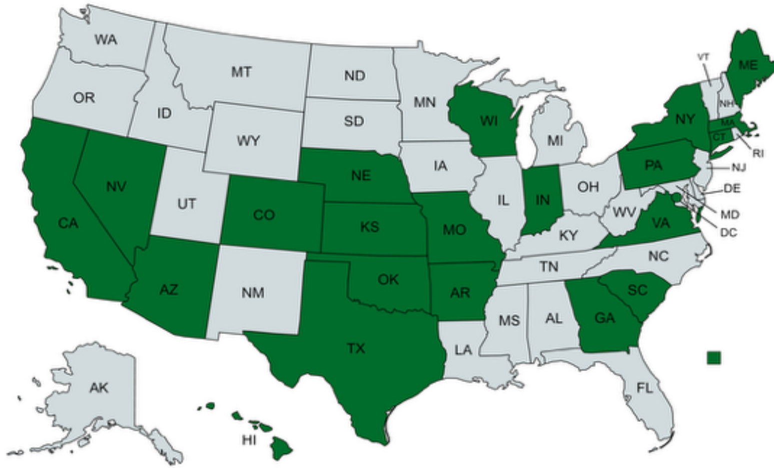
State LIHTC



Source: Cabretta Capital

Due to growing interest from investors in state LIHTC, we've included a summary reference of state LIHTC programs below. Investors often focus on states where the state credit is bifurcatable (can be purchased separately or disproportionally allocated) from the federal credit. States with bifurcatable state LIHTC include: AR, CA, CO, CT, D.C., GA, HI, IL, IN, KS, MA, MO, NM, NY, OK, TX, UT, and VT.

Legislative initiatives for state affordable housing credits continue their steady march. Over thirty states now have a State LIHTC program. States that currently enjoy the benefit of a state affordable housing credit have proven far more attractive to developers amid recent finance and labor headwinds. With more than half of the states now offering a state credit incentive, this resource has become a permanent and critical piece of the country's affordable production engine. Notably, Ohio and Rhode Island recently announced new state LIHTC programs but not included here until more is known on their allocation.

Per Capita Spend Rank	State	Population	Annual Credit Authorization	Per Capita Credit Spend	Population Rank
1	Hawaii	1,475,000	125,000,000	$ 84.79	40
2	Georgia	10,917,000	700,000,000	$ 64.12	8
3	South Carolina	5,218,000	200,000,000	$ 38.34	23
4	Kansas	2,955,000	85,000,000	$ 28.77	35
5	Massachusetts	7,127,000	200,000,000	$ 28.06	15
6	Connecticut	3,613,000	100,000,000	$ 27.68	29
7	Indiana	6,846,000	150,000,000	$ 21.91	17
8	Missouri	6,189,000	135,000,000	$ 21.82	19
9	New Jersey	9,389,000	184,000,000	$ 19.60	11
10	California	39,996,000	646,000,000	$ 16.15	1
11	Nebraska	1,989,000	31,000,000	$ 15.59	37
12	Washington D.C.	645,000	7,400,000	$ 11.48	50
13	Colorado	5,923,000	60,000,000	$ 10.13	21
14	Nevada	3,186,000	30,000,000	$ 9.42	32
15	New York	20,366,000	150,000,000	$ 7.37	4
16	Maine	1,370,000	10,000,000	$ 7.30	42
17	Wisconsin	5,936,000	42,000,000	$ 7.08	20
18	Virginia	8,758,000	60,000,000	$ 6.85	12
19	Arizona	7,304,000	40,000,000	$ 5.48	14
20	Vermont	647,000	3,500,000	$ 5.41	49
21	Pennsylvania	13,063,000	50,000,000	$ 3.83	5
22	Utah	3,374,000	11,500,000	$ 3.41	30
23	New Mexico	2,130,000	4,500,000	$ 2.11	36
24	Oklahoma	4,001,000	8,000,000	$ 2.00	28
25	Texas	31,965,000	25,000,000	$ 0.78	2
26	Arkansas	3,031,000	250,000	$ 0.08	33

Secondary Transactions

The LIHTC secondary market was quiet in 2023 given the regional banking crisis and "higher for longer" interest rate environment. However, we are aware of several smaller portfolios totaling roughly $200 million that are being considered for sale by investors.

Secondary market activity occurs in a few different ways. We think of a traditional secondary sale as when a LIHTC investor simply decides to sell part or all their portfolio due to reduced need for credits. This happens sporadically and can impact the primary market if the secondary volume is large enough that it reduces a significant amount of demand for primary product.

Alternatively, an investor, typically a bank, may buy and sell LIHTC programmatically. They may purchase more credits than they need as part of meeting their on-going CRA goals and then choose to sell down a portion of their portfolio to free up capacity. Usually this is part of a strategy around banking relationships, securing debt and other CRA opportunities. These transactions are typically bank-to-bank and account for some portion of secondary activity every year.

In 2022, secondary market activity was dominated by a single large offering of more than $2 billion from one major bank. Such a large secondary would typically create concern around potential impact to pricing in the primary market, but we did not see a significant impact to the primary market for several reasons. First, approximately 50% of the secondary was reportedly purchased by a single large investment bank. Second, the secondary was being offered with a pay-as-you-go structure producing an exceptionally high IRR which really isn't comparable to primary-market returns. Furthermore, it was "enhanced" with the seller providing top loss protection and a guaranty to buy back a portion of the sold credits if the buyer was unable to use the full amount. The pay-go structure also eliminated the 15-year holding term which attracted interest from some investors that are not programmatic primary-market participants.

Preservation & Workforce Housing

Preservation funds constitute a segment of the multi-family market that is typically comprised of existing, older multi-family rental properties with rents at or below 80% of area median income (AMI) which may or may not have some form of government subsidy, and generally cater to renter households with incomes at or below 80% of median income. The fund sponsors range from those with stated missions to preserve

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affordable housing, to those that see value-add plays for older multi-family real estate with strong occupancy and cash flow history.

Interest in the preservation and workforce housing fund sector grew in the years leading up to the pandemic as investors looked for value in the multifamily sector (non-tax credit) coupled with an increased corporate focus on social impact investing. As a result of these factors and the establishment of successful track records, the size of the fund offerings continued to increase through 2022. Competition from institutional investors for quality transactions has kept property acquisition competitive and yields steady despite increasing interest rates.

There was a significant drop in transaction activity and new capital commitments to funds in 2023. The spike and volatility of interest rates caused uncertainty for borrowers, unpredictability in valuations, and an erosion in investor sentiment according to Chris Herrman, Executive Vice President, Chief Investment Officer and Fund Manager in Enterprise's Real Estate Equity group. He is optimistic that 2024 will be a bounce back year for several reasons: peak interest rates are likely behind us and expected to decline over 2024; property fundamentals including rent collections and operating expense inflation levels are normalizing with each passing month; and investor sentiment is improving.

Similar to LIHTC funds, yields and terms remained relatively stable and are projected to remain in a similar range for 2024. As a result, higher interest rates and returns on alternative investments made Preservation Funds relatively less attractive last year. Investor interest remains strong for multifamily, and for affordable multifamily rental housing in particular. Similar to the LIHTC market, there were some investors who paused or at least slowed the pace of their commitments as interest rates continued to climb. The reduction in demand reportedly helped bring about an overdue market correction and led to more reasonable valuations and underwriting assumptions according to one major syndicator.

One headwind that is plaguing developers of both market rate and affordable rental housing is the cost of insurance. There are many factors contributing to the rapid increase in insurance costs, but higher premiums are mainly a result of greater impact from natural disasters such as floods, hurricanes and fires.[8]

Looking ahead, with interest rates declining and new CRA rules supporting preservation and workforce housing, we expect to see an increase in demand from investors in 2024. Like housing credit investments, preservation and workforce funds continue to demonstrate resilience during challenging economic times due to the general shortage of housing supply and relatively low rent levels.

Across our sponsors, multi-investor fund sizes have ranged from $50 million to $1.74 billion, but are expected to come to market on the smaller end of that spectrum in 2024. Preferred returns have generally held steady in the 7.00%-8.00% range on a pre-tax basis with total returns in the 10.00%–14.00% range. Please refer to our attached summary of current offerings.

[8] https://www.housingfinance.com/management-operations/industry-insurance-challenges-worsen_s

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Wrap Up

Please look for our pricing update at the end of Q1 when we send out our updated summary of fund offerings to capture any pricing changes before our next newsletter in July 2024. Please feel free to contact us with any questions or if you'd like to discuss the LIHTC market and fund offerings in more detail.

As always, we appreciate your feedback and welcome your questions and comments.

You can reach Dave Robbins at 617-340-7040

& Brian Rajotte at 503-575-9232.

You can reach Mike Connolly, Chris McCarthy and Garret Daigler of

Beacon Hill Capital at 781-740-8981.

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LIHTC Fund Market Overview

Q1 2024

National Funds

Sponsor	Fund	Close	Approx Size ($MM)	Status	Investment Pricing After Tax Quarterly Effective IRR (%) Price Per Credit ($) Investment Class							Hard Debt %	9% / 4%	Repeat Developer	New Const / Rehab	Loss Ratio	Family / Senior	Notes
Alliant	119	March	185	Available	7.50% $0.898 >=$45M	7.40% $0.901 >=$35M	7.25% $0.905 >=$25M	6.75% $0.912 >=$15M	6.75% $0.019 <$15M	Various TBD CRA		30%	70% / 30%	70%	57% / 43%	103%	63% / 37%	90% of properties already closed or under LOI, CA allocated credits available, 50% of deals benefit from project based subsidies
CREA	107	June	250	Prelminary	TBD TBD >=$50M	TBD TBD >=$30M	TBD TBD >=$20M	TBD TBD <$20M	TBD TBD CRA			33%	41% / 59%	63%	64% / 36%	86%	68% /32%	100% specified 26 properties in 13 states. 70% of units benefit from rental subsidy. Serving veteran, formerly homeless and special needs population.
Enterprise	44	May/June	300+	Preliminary	7.30% TBD >=$50M	7.00% TBD >=$25M	6.50% TBD >=$20M	6.25% TBD >=$15M	5.75% TBD CRA	3.75% TBD CRA		<30%	TBD	TBD	TBD	TBD	TBD	Pipeline of 24 properties will likely inlcude at least one property in USVI. 50% of equity to have rental subsidy or be for senior tenancy.
PNC	92	Dec/Jan	127	Closing	7.40% $0.903 >$30M	6.50% $0.934 >=$30M	6.25% $0.943 >=$20M	5.75% $0.961 <=$10M	Various TBD CRA			32%	26% / 74%	92%	62% / 38%	110%	82% / 18%	Accelerated credit delivery, 45% of stabilized credits in 2024. 38% of properties already in construction, 67% of equity include supportive services, 10% Co-investment by PNC Bank
RBC	36	April	175	Preliminary	TBD TBD >=$30M	TBD TBD >=$20M	TBD TBD >=$10M		TBD TBD CRA			22%	56% / 44%	67%	76% / 24%		48% / 52%	14 properties across 11 states. To be 100% specified. Only 23% Hard Debt / Total Development Cost
Red Stone	103	December	230	Closed	7.50% $0.910 >=$45M	7.40% $0.912 >=$30M	6.90% $0.928 >=$20M	6.25% $0.945 >= $8M	5.50% $0.975 < $8M			21%	31% / 69%	90%	32% / 68%	135%	62% / 38%	19 properties in 10 states, 99% of Portfolio identified and 100% of identified properties closed or signed LOI. Rental subsidy on 68.2% of units. 3.25% fund reserves. 0.25% deferred fee.
Richman	144	November	150	Closed	7.40% $0.900 >=$30M	7.00% $0.910 >=$17.5M		Various Various CRA				32%	31% / 69%	92%	53% / 47%	128%	70% / 30%	100% specified, 80% under LOI 92% repeat developer, 13 properties in 9 states, 70% units benefit from rental assistance contract for entire 15-year compliance period
Stratford	43	December	150	10	7.00% $0.876 Non CRA				6.15% $0.911 CRA	5.50% $0.936 CRA	5.00% $0.957 CRA	34%	37% / 63%	84%	60% / 40%	111%	74% / 26%	Two additional CRA classes: 5.88% at $.922 and 5.25% at $.948. 17 properties in 12 states. 7 of 17 transactions with rental subsidy.
WNC	56	April	295	Available	7.50% $0.914 >=$50M	7.40% $0.917 >=$30M	6.75% $0.939 < $30M	5.00% TBD CRA	4.00% TBD CRA			31%	38% / 62%	61%	55% / 44%	108%	75 / 25%	100% specified and under LOI. 17 properties in 14 states. Resident population: previously homeless, veterans, individuals with disabilities, and/or extremely low income

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Loss Ratio: Tax losses before dispoition as a percentage of capital invested
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LIHTC Fund Market Overview

Q4 2023

National Funds

Sponsor	Fund	Close	Approx Size ($MM)	Status	Investment Pricing After Tax Quarterly Effective IRR (%) Price Per Credit ($) Investment Class							Hard Debt %	9% / 4%	Repeat Developer	New Const / Rehab	Loss Ratio	Family / Senior	Notes
Alliant	119	March	185	Available	7.50% $0.898 >=$45M	7.40% $0.901 >=$35M	7.25% $0.905 >=$25M	6.75% $0.912 >=$15M	6.75% $0.019 <$15M	Various TBD CRA		30%	70% / 30%	70%	57% / 43%	103%	63% / 37%	90% of properties already closed or under LOI, CA allocated credits available, 50% of deals benefit from project based subsidies
CREA	105	Dec/Jan	230	Closing	7.60% $0.92 >=$50M	7.40% $0.93 >=$30M	6.90% $0.94 >=$20M	6.35% $0.96 <$20M	5.50% N/A CRA 1	4.00% N/A CRA 6		28%	41% / 59%	84%	67% / 33%	96%	74% / 26%	100% specified; 86% closed or under LOI. 33 properties in 7 states. Six CRA classes with yields ranging from 4.00% to 5.50%.
Enterprise	43	October	180	Closed	7.00% N/A >=$25M	6.50% N/A >=$20M	6.25% N/A >=$15M	5.75% N/A CRA	3.75% N/A CRA			25%	27 / 73%	75%	60% / 40%	TBD	56% / 44%	Primarily CA fund plus some additional states including TX and MA. 15 properties across 7-8 states. 50% of portfolio closed or under LOI. 79% of equity with subsidy.
PNC	92	Dec/Jan	127	Closing	7.40% $0.903 >$30M	6.50% $0.934 >=$30M	6.25% $0.943 >=$20M	5.75% $0.961 <=$10M	Various TBD CRA			32%	26% / 74%	92%	62% / 38%	110%	82% / 18%	Accelerated credit delivery, 45% of stabilized credits in 2024. 38% of properties already in construction, 67% of equity include supportive services, 10% Co-investment by PNC Bank
RBC	35	Oct/Jan	168	Closed	7.40% $0.911 >=$30M	6.75% $0.950 >=$25M	6.25% $0.950 >=$15M	6.00% $0.950 <$15M	5.50% TBD CRA I	Various TBD CRA II - V	3.75% TBD CRA VI	23%	16% / 84%	62%	70% / 30%	TBD	60% / 40%	14 properties across 11 states. 100% of portfolio is under contract or closed. Early Q1 closing an option.
Red Stone	103	December	230	Closed	7.50% $0.910 >=$45M	7.40% $0.912 >=$30M	6.90% $0.928 >=$20M	6.25% $0.945 >= $8M	5.50% $0.975 < $8M			21%	31% / 69%	90%	32% / 68%	135%	62% / 38%	19 properties in 10 states, 99% of Portfolio identified and 100% of identified properties closed or signed LOI. Rental subsidy on 68.2% of units. 3.25% fund reserves. 0.25% deferred fee.
Richman	144	November	150	Closed	7.40% $0.900 >=$30M	7.00% $0.910 >=$17.5M		Various Various CRA				32%	31% / 69%	92%	53% / 47%	128%	70% / 30%	100% specified, 80% under LOI 92% repeat developer, 13 properties in 9 states, 70% units benefit from rental assistance contract for entire 15-year compliance period
Stratford	43	Dec/Q1	150	Available	7.00% $0.876 Non CRA				6.15% $0.911 CRA	5.50% $0.936 CRA	5.00% $0.957 CRA	34%	37% / 63%	84%	60% / 40%	111%	74% / 26%	Two additional CRA classes: 5.88% at $.922 and 5.25% at $.948. 17 properties in 12 states. 7 of 17 transactions with rental subsidy.
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Loss Ratio: Tax losses before dispoition as a percentage of capital invested

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LIHTC Fund Market Overview

Q1 2024

Regional Funds									
Sponsor	**Fund**	**Close**	**Approx Size ($MM)**	**Status**	**Investment Pricing** After Tax Quarterly Effective IRR (%) Price Per Credit ($) Investment Class			**Hard Debt %**	**Notes**
CREA	**West / Southwest**	**June**	**150**	**Premininary**	TBD	TBD	TBD		**Western and Southwestern states, CRA Focused, 86% New Construction, 83% Family, 71% Repeat Developer**
					TBD	TBD	TBD	32%	
					CRA	CRA	CRA		
Richman	Western Regional 3	November	90	Closed	Varies	Varies	Varies		Third Western Regional fund from Richman Group. All Bank investors with targeted CRA in Utah and other Western States. Yield and price per credit based on property mix / CRA claims
					TBD	TBD	TBD		
WNC	**CA 21**	**May**	**89**	**Available**		**6.25%**		**0.4**	**100% specified and under LOI, 100% Family, 75% Repeat Developer, 75% Rehab**
						$0.930			
						All			

This information does not consititute an offering. All information subject to change.

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Past performance does not guarantee future results. Not FDIC Insured. No Bank Guarantee. May Lose Value.

Market Overview
Q1 2024

Preservation & Workforce Housing Funds											
						Pre-Tax IRR %					
Sponsor	Fund	Close	Commitment Period/Hold (in Yrs)	Asset Mgmt Fees	Approx. Size (millions)	Pref Return	Net/Residual	Co Investment	Minimum Investment Size	Approx. Available $MM	Notes
Bridge Investment Group	2	Closed	4 / 10-12	1.5-2.0%	1740	7.00%	10-12%	2% up to $10M	$250K	0.00	Approx $940M deployed as of end Q3. PWI compliant, tenant programs & svs, 65-85% acquisition of Class B&C, 10-20% new development, 5-15% manuf. housing. Target leverage of 60-65%.
Enterprise	**5**	**2022-23**	**3 / 10**	**1.5%**	**300**	**7.00%**	**9-11%**	**2.5% <= $2.5M**	**$500k**	**300.00**	**Target returns for CRA investors are 100 basis points lower. Preferred Return of Capital. 50/50 until yields hit, then 20% after preferred return & 30% after net return to LP's thereafter. Max 15% of equity in 1 transaction**
RBC	**1**	**2023**	**2 / 10**	**1%**	**75**	**7.00%**	**10-12%**	**3.00%**	**$5M**	**75.00**	**PWI Compliant. Target Fund level leverage of 65% to 80%. Max 20% equity in single transaction; 100% of cash flow to investors until pref return and return of capital, then 75/25 split. Three properties identified out of an expected 8-10.**
WNC	**3**	**2023**	**3 / 8**	**1.5%**	**300**	**8.00%**	**11-13%**	**5% up to $1.5M**	**$2.5M**	**25.00**	**PWI compliant, 100% return of capital to LPs; next 100% to LPs until cumulative 8% pref., 50% to LPs until 20% catch up to GP, then 80/20 split**

* Funds **shown in bold** are open to investors.

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LIHTC Yields vs. Tax Adjusted Alternatives

Spreads to LIHTC
Jan 2000 - Present

	Date	10 Yr	Date	BBB	Date	AAA
All Time Low:	6/26/06	1.33%	10/31/08	0.27%	6/28/06	0.91%
All Time High	10/1/09	9.25%	12/17/09	7.87%	11/27/09	9.21%
Current:	1/16/24	3.82%	1/16/24	2.10%	1/16/24	2.90%

LIHTC — 10 Yr — BBB — AAA

Notes: 35% Corp. Tax Rate 2000-2017, 25% for 2017, 21% for 2018-present

Avg. LIHTC Yields: informal survey of non-CRA economic sell yields for multi-investor national LIHTC funds on a quarterly effective after tax basis.

AAA, BBB & 10 Yr: Yields adjusted to represent an after tax yield

Source: https://fred.stlouisfed.org/series/

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Tax Adjusted 10 Yr Spread to LIHTC vs. Rolling Average

10.00%
9.00%
8.00%
7.00%
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%

All Time High 9.25%

All Time Low 1.33%

Current
3.82%

1/3/00 7/3/00 1/3/01 7/3/01 1/3/02 7/3/02 1/3/03 7/3/03 1/3/04 7/3/04 1/3/05 7/3/05 1/3/06 7/3/06 1/3/07 7/3/07 1/3/08 7/3/08 1/3/09 7/3/09 1/3/10 7/3/10 1/3/11 7/3/11 1/3/12 7/3/12 1/3/13 7/3/13 1/3/14 7/3/14 1/3/15 7/3/15 1/3/16 7/3/16 1/3/17 7/3/17 1/3/18 7/3/18 1/3/19 7/3/19 1/3/20 7/3/20 1/3/21 7/3/21 1/3/22 7/3/22 1/3/23 7/3/23

LIHTC Spread over BBB   Rolling Average

Notes: 35% Corp. Tax Rate 2000-2017, 25% for 2017, 21% for 2018-present

Avg. LIHTC Yields: informal survey of non-CRA economic sell yields for multi-investor national LIHTC funds on a quarterly effective after tax basis.

BBB & 10 Yr: Yields adjusted to represent an after tax yield

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